

Downtown District Energy Fiscal Policy

Recommendation

That Utility Committee recommend to City Council:

That the proposed Downtown District Energy Utility Fiscal Policy C631 as set out in Attachment 1 of the June 18, 2025, Financial and Corporate Services report FCS02853, be approved.

Requested Action		Council decision required	
ConnectEdmonton's Guiding Principle		ConnectEdmonton Strategic Goals	
CONNECTED This unifies our work to achieve our strategic goals.		Climate Resilience	
City Plan Values	CREATE		
City Plan Big City Move(s)	Greener as we grow	Relationship to Council's Strategic Priorities	Climate adaptation and energy transition
Corporate Business Plan	Transforming for the future		
Council Policy, Program or Project Relationships	<ul style="list-style-type: none">● C203D - Debt Management Fiscal Policy● Bylaw 20914 - Downtown District Energy Utility Bylaw		
Related Council Discussions	<ul style="list-style-type: none">● June 23, 2023, Integrated Infrastructure Services report IIS01386, Downtown District Energy Initiative - Project Update.● February 27, 2024, Integrated Infrastructure Services report IIS02148, Implementing Edmonton's District Energy Strategy.● March 5, 2025, Integrated Infrastructure Services report IIS02821, Downtown Workspace Optimization.		

Executive Summary

- Construction of Phase 1 of the Downtown District Energy Initiative (DDEI), which includes connections to Winspear Centre (including its expansion), Century Place and Chancery Hall, is nearing completion and utility operations are expected to commence soon.
- The purpose of the Utility Fiscal policy is to support utility operations by establishing principles that ensure the DDEI is operated in a manner that reflects Council's overall vision; that there is a consistent approach year over year for financial planning, budgeting and utility rate setting; and that the Utility is financially sustainable over the long term.
- Further growth of DDEI will require a balanced approach to ensure the Utility is appropriately managed over the long-term to balance the opportunity of integrating renewable energy sources while ensuring long-term financial sustainability.

REPORT

The Downtown District Energy Initiative is part of the City's District Energy Strategy. The strategy supports several goals outlined in The City Plan and Council's climate resilience objectives, and is identified as a "Big Win Action" in Edmonton's Community Energy Transition Strategy.

Phase 1 of the DDEI includes the construction of District Energy infrastructure to support the provision of heating services to Winspear Centre, Century Place and Chancery Hall. Construction of Phase 1 was approved through capital profile 20-83-9001 (Downtown District Energy Initiative) with funding primarily through tax-supported debt and Pay-As-You-Go. This phase is nearing completion and utility operations are forecast to commence in Q3 2025.

To support utility operations, Administration has developed a Utility Fiscal Policy (UFP) for the Downtown District Energy Utility (DDEU) to establish principles to guide utility operations, debt financing, financial planning and utility rate setting. The purpose of the UFP is to ensure that the DDEU is operated in a manner that reflects City Council's overall vision; that there is a consistent approach year over year for financial planning, budgeting and utility rate setting; and that the Utility is financially sustainable over the long term.

Similar to private utilities, the Utility will account for the cost of service under a full cost accounting approach. The Utility is to be operated in a manner that balances the best possible service at a fair and reasonable cost (public utility) while employing utility approaches to rate setting. Regulated utility customer charges will be based on cost of service while factoring in the impact of "Business As Usual" (BAU) costs. BAU is, equivalent on average to, what a utility customer would pay, elsewhere in Edmonton, based on estimated avoided costs on related thermal energy utility bills, annual equipment maintenance and capital renewal costs.

The UFP will also include relevant financial indicators for Administration to monitor and report on the Utility's progression to long-term financial sustainability. Achievement of the financial indicators will need to factor in both short-term and long-term Utility needs. The financial indicators will include:

1. Net Income
 - a. Ensure sufficient revenue to cover annual operating expenses and sufficient retained earnings to support capital growth and renewal needs.

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2. Cash Position
 - a. Ensure sufficient cash to support Pay-As-You-Go funding for capital expenditures and working capital requirements.
3. Debt Service Coverage Ratio
 - a. Ensure sufficient revenue is being earned to cover annual debt servicing costs.
4. Debt to Net Asset Ratio
 - a. Ensure capital assets are financed with an appropriate level of debt to balance long-term financial sustainability with intergenerational equity.

Achievement of the financial indicators will need to be appropriately managed over the long-term to ensure the Utility is able to balance the opportunity of integrating renewable energy sources, while ensuring long-term financial sustainability.

Depending on the desired pace for integrating renewable energy, achieving long-term financial sustainability may necessitate the consideration of alternative funding sources including, but not limited to, external grant funding, tax levy support and increased utility rates above Business As Usual (BAU) rates.

Should the Utility's cash and/or net income position temporarily prove insufficient to meet cash flow requirements, the Utility may utilize bridge financing through the City of Edmonton's working capital. In such instances, the Utility shall pay interest at a rate that compensates the City of Edmonton. In the event that the Utility does not generate sufficient cash and/or revenues to sustain operations on a permanent basis, external funding would need to be identified to ensure the financial sustainability of the Utility, including but not limited to tax levy support and grant funding.

Legal Implications

Public utilities owned or operated by municipalities providing service within those municipalities are generally regulated by their municipal councils, as they are exempt from Alberta Utilities Commission approval to establish the utility pursuant to s. 78(2) of the *Public Utilities Act*, RSA 2000, c P-45. Municipal utility customers have a right to appeal to the Alberta Utilities Commission pursuant to s. 43 of the *Municipal Government Act*, RSA 2000, c M-26 if a customer's service charge, rate or toll does not conform to the municipality's rate structure, has been improperly imposed, or is discriminatory. This appeal is not with respect to the utility rate structure approved by municipal councils.

Community Insight

Public engagement was not conducted for the development of the UFP. Project updates for the Downtown District Energy Initiative have been provided and presented to the Energy Transition Climate Resilience Advisory Committee (ETCRC). Administration has also been in ongoing communications with the Winspear Centre about the integration of the DDEI into their completion project, which aligns the development of both projects and ensures thermal energy can be provided when it is required. As part of the future project development, EPCOR and Administration are planning public consultation activities for the surrounding community to achieve awareness of the project and the overall initiative.

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GBA+

The UFP is not expected to disproportionately impact Edmontonians when considered from a GBA+ perspective. Utility rate setting principles will ensure that regulated customer utility rates will be a comparable, on average, fee equivalent on average to what they would be elsewhere in Edmonton through traditional service providers.

Environment and Climate Review

This report was reviewed for environment and climate risks. Based on the review completed no significant interactions with the City's environmental and climate goals were identified within the scope of this report.

The environmental impacts of the Downtown District Energy Initiative itself are outlined in the June 23, 2025, Integrated Infrastructure Services report IIS02765, Downtown District Energy Initiative - Growth Plan.

Attachment

1. Proposed Downtown District Energy Utility Fiscal Policy